



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: March 4, 2003 REPORT NO. 03-040

ATTENTION: Committee on Land Use and Housing
Docket of March 19, 2003

SUBJECT: Development Services Department Fee Proposal

SUMMARY

Issue: Should the Committee on Land Use and Housing (LU&H) recommend that City Council revise development review user fees in order to improve all mandatory regulatory review and inspection services to meet established service level standards, to provide for full Department cost recoverability, and to offer the limited enhanced and voluntary optional services as described below?

1. Base Service Fees - Revise development review fees as shown on Attachment No. 1 to consolidate fee types and eliminate 57 unnecessary fee categories; to increase initial and subsequent deposit accounts to reflect actual costs; and to revise fees based on the results of a fee study conducted by the Department's fee consultant (Maximus) and include the following costs:
 - a. IT Improvements - Include the information technology costs in the proposed fees to update and maintain automated zoning and land use information, to maintain project review records, to keep automated systems current, to pilot automation for field inspection services, and to provide public access to key project data via the internet. These costs would improve Department efficiency and enhance responsiveness to customers.
 - b. Building Sale and Purchase - Include a building purchase in the proposed fees to collocate plan check and inspection staff consistent with recommendations of the Zero Based Management Review (ZBMR). At the same time, the Department would sell its portion of the Ridgehaven building to Environmental Services and move the inspection staff to the new building. Development Services would fund the acquisition costs (approximately \$7 million) and related improvements (approximately \$2 million) of the building through a bond issuance by pledging revenues from the proposed fee increase for the building purchase and improvements. It is estimated that proposed

fees would cover the annual payments and necessary coverage requirements on a 30-year bond and cover the operations and maintenance costs of the building. It is estimated that annual payments on a bond issuance will be approximately \$750,000 with the annual operations and maintenance expenses estimated at approximately \$70,000 escalating at 3% annually. If approved, a subsequent bond action will be brought back to City Council for approval to support the building purchase by the enterprise fund.

- c. Base Service Position Costs - Approve the mid-year addition of 37 Full Time Equivalents (FTE) over budgeted positions to be added as budgeted positions in the Department's Fiscal Year 2004 budget to meet established review and inspection service levels (Attachment No. 6) and to reduce staff overtime.
 - d. Future Fee Adjustments to Match Labor Costs - Include future fee increases of 6.2% on May 2 in fiscal year 2004 and 4.9% on May 2 in fiscal year 2005 to match the personnel expense increases that will result from the approved fiscal year 2003 labor contract.
 - e. Add Fire Plan Check and Inspection to Enterprise Fund - Transfer fire plan check and inspection staff from the general fund into the enterprise fund effective July 1, 2003. This will result in an estimated annual savings of \$120,000 in the general fund.
2. Enhanced Services - Long Term Permit Monitoring - Approve the mid-year addition of 14 FTE over budgeted positions to monitor project compliance with storm water, environmental mitigation, slope revegetation, and other permit conditions on an ongoing basis after projects have been constructed and after final inspections have occurred. These positions will be added as budgeted positions in the Department's Fiscal Year 2004 budget
3. Optional Services - Include the fees as shown on Attachment No.1 and approve the mid-year addition of 27 FTE over budgeted positions to be added as budgeted positions in the Department's Fiscal Year 2004 budget to allow the Department to offer the following choices for service on a limited basis:
- a. Express Services - To provide for project management, express plan review, and next day inspection services that can be voluntarily selected by development review customers. (11.5 FTE positions)
 - b. Affordable/Infill Housing and Energy Efficiency Expedite Program - To provide for project management and express review services that can be voluntarily selected by customers developing affordable/infill housing and energy efficient buildings. (15.5 FTE positions)

These positions will be filled only as customer demand for these services supports the increased staffing.

Manager's Recommendation: That LU&H recommend City Council approve the revised fees and reimbursable staff positions.

Community Planners Committee Recommendation: On February 25, 2003 the Committee unanimously (21-0) recommended approval of a motion to endorse the Development Services Department's recommendation to restructure their fee schedule.

Other Recommendations: Prior to the Committee hearing on the revised fees, staff will have presented or offered a presentation on the proposed fees to many of the organizations listed on Attachment No. 3. Any recommendations received prior to the Committee meeting will be forwarded to the Committee or provided verbally at the hearing.

Environmental Impact - This activity is exempt from CEQA pursuant to Section 15061(b)(3) of the State CEQA guidelines.

Fiscal Impact - The proposed 78 FTE budgeted positions (Attachment No. 7) would be fully cost recoverable from the proposed fee increase, resulting in revenues of \$12 million. The fees will cover increased costs, improve current service levels, and provide for the limited enhanced and optional services described above. In addition, a \$120,000 annual savings will accrue to the general fund as a result of this action.

BACKGROUND

The City's development review and inspection services are operated without general fund subsidy as an Enterprise Fund. Development Service's customers, therefore, pay for the Department's operating costs similar to most businesses. The level of service the Department is able to provide is directly related to the fees charged. In addition, State law requires that the fees charged "shall not exceed the estimated reasonable cost of providing the service" (California Government Code Section 66014).

The Building Inspection Enterprise Fund¹ was created in 1985 (Attachment No. 5, Fund History). As of 1998, all development and building inspection related activities except for fire plan check and inspection have now been included in the fund.

As noted at the time of the fiscal year 2003 budget hearings, a comprehensive review of the Department's fees was planned to determine what fee changes were necessary to support the Department's development review and inspection services. This report contains fees based on the results of the fee study performed by the outside fee consulting firm Maximus.

The Enterprise Fund annual expenditures for fiscal year 2003 is estimated to be \$43.0 million. The proposed fee changes will provide sufficient revenue to support a proposed \$55.0 million enterprise budget in fiscal year 2004 – a \$12.0 million increase compared to fiscal year 2003. The fees are proposed to support the following goals:

¹ Currently named the "Development Services Enterprise Fund."

1. Meet Base Service Levels - Provide fees to support service levels for high quality and timely plan check and building inspection, to support services that meet state and local law mandates, and to fully recover Department operating costs. Customer service standards have been established since the inception of the Enterprise Fund (Attachment No. 6) and since 1999, performance is measured on a quarterly basis. These standards are important in measuring and managing customer development review and building inspection schedules that can affect a customer's development costs many times more than the cost of the review and inspection process itself. Reduction in the Department's level of service can increase time-sensitive financing, lead to costly construction delays, or increased land carrying costs. Proposed fees support these specific review and inspection service levels expected by building owners and the industry. In addition, proposed fees support the appropriate staffing, resources, and training costs to meet the Department's mission to protect the public safety, health, and welfare.
2. Offer Limited Enhanced and Optional Services - Provide fees to support limited enhanced project management, plan review, and inspection that offer customers seeking a higher level of service with options to meet those needs. The Department has offered expedite and express services for the past several years, but has been unable to offer it for all staff disciplines and service areas. Limitations due to restricted staffing levels and measures to control Department expenditures have constrained our ability to provide these services more broadly and consistently. In addition, these services have only been provided on limited permit types and have not been provided on a project basis. The Department's capacity to provide these services in the past have been through staff working voluntary overtime and by impacting the schedules of other non-expedite/express projects. The proposed fees provide the Department with the ability to offer a wider range of limited services intended to allow customers to select those enhancements that can best improve the predictability and schedule of their project. They will also allow the Department to reduce reliance on overtime and minimize impacts on other project reviews and inspections.

The last fee analysis for the Department was performed in fiscal year 2001 and resulted in a conservative 5% fee increase and a reduction in the Department's fee stabilization reserve from \$3.0 million in fiscal year 1999 down to an estimated zero fund balance for FY 2003. Over the past 5 years, the Department has provided resources to implement computer system improvements such as geographic information system mapping, project tracking, and an interactive voice response inspection scheduling system. In addition, the Department added the project management service during this time period to provide for a single point of customer contact, to manage conflict resolution, and to facilitate projects through the project review process. This service was added without increasing project fees.

The City's administrative regulations provide for an annual review of each Department's services to determine if new or revised fees are appropriate, and set forth the procedure for Council authorization of new or revised fees. If approved by Council, the effective date for new fees will be no sooner than sixty days after the Council action, according to California State Code.

DISCUSSION

Development Services has managed its workload within the means provided by the revenues generated from the last fee adoption in 2001. Despite these efforts, service levels are beginning to decline due to staffing cuts made to balance revenues and expenditures as labor costs have increased. Following is a description of the Department's current financial condition, adjustments the Department has made to reduce costs and to operate more efficiently, and a description of the proposed fees to enhance the level of service to meet customer requests.

Current Financial Condition

Since the fiscal year 2001 fee adjustment, the Department's work load, as represented by the value of construction (valuation), has increased from \$ 1.87 billion in FY 2001 to an estimated \$2.01 billion in FY 2003. Budgeted staffing in the enterprise fund also increased slightly during this period, going from 431 positions in FY 2001 to 439 proposed in FY 2003. Actual filled positions, however, have been reduced during this same period, going from 461 to 433 positions to control Department expenses. During the same period, the Department's expenses have grown from \$41.4 million to an estimated \$43.8 million, an increase of 5.8%. The Department has been able to meet 91% of its 80 performance measures during this time, despite this increase in expense and reduction in filled positions to perform the work. Overall labor costs have increased by 16.2% in this same timeframe, but the Department has controlled overall expenses by not filling positions that have become vacant, by drawing down the Department's fee stabilization reserves, and by implementing various cost controls and efficiency measures.

Cost Controls and Efficiency Measures

Annual valuation reviewed per plan checker has increased from \$46.8 million in FY 2001 to \$51.5 million in FY 2003. Annual inspections performed per inspector have grown during this same period from 3,163 to 3,579. Projects managed per project manager has also increased from 16 in FY 2001 to 31 in FY 2003. Each of these measures represent a substantial increase in output per staff to manage the Department's workload within constrained revenues.

In addition to staff performance, operational improvements were implemented resulting in overall savings to the Department that helped to control increased costs (Attachment No. 8). Many of these changes resulted from ideas and input from our LU&H Technical Advisory Committee (TAC), the Zero Based Management Review (ZBMR) process, and Select Committee. A key change was the consolidation of eight Departments into one single Development Services Department and converting to a fee-for-service fund. This has saved the general fund \$2.1 million annually since 1996. Furthermore, numerous automation improvements have also helped make the department more efficient and saved customers' money. Improvements include a new project tracking system that tracks and helps manage all projects, a geographic information system (Carbrillo) with over 100 layers of information, and web enabled services such as plan finder and E-permitting (currently issuing 2,700 permits annually). In addition to offering better and smarter services, these new automated systems have allowed us to eliminate old "legacy" systems resulting in annual savings of \$196,000.

Other customer improvements include permit by Fax and mail (3,482 per year average), Guaranteed Second Opinion program, and the engineering self-certification program (30 projects annually) have further helped the department to control costs and save customers time and money. All of these improvements and efficiencies, however, will not allow the Department to continue meeting service demand, maintaining quality standards, and satisfying customer needs in the future without changes to review and building inspection fees.

Fee Proposal

Department workload and operating costs were reviewed by a fee consulting firm, Maximus, to determine the Department's level of cost-recoverability. In order to develop a fee proposal, the consultant and the Department did extensive analysis of Department performance data, operating costs, workload, and staffing to develop a fee proposal that would meet performance standards, reflect the cost of that service, and provide optional services for the customer. Based upon this analysis, both fee increases and decreases are being proposed.

For building permits, the valuation model is being changed to a square footage model using hourly charges and staff time spent on the project. This square footage and hourly estimate of the time to provide plan check and inspection services is considered a more accurate methodology to develop proposed fees. Other development and construction permits and approvals have been revised based on an estimate of the review and inspection times for each permit type and based on actual staff labor costs. Approvals that previously were charged hourly for review services against deposit accounts will continue to be charged on an hourly basis. The initial deposit account amounts will be increased and a requirement of an additional deposit with each new review cycle has been added. This change has been necessitated by increased costs for review and by a need to significantly decrease the Department's deposit account liability reserve (currently \$1.4 million). The hourly cost charged to these accounts will also increase by 11% with this fee proposal to cover information technology improvement costs and to provide fee stabilization reserves. In addition, 14 flat fee based approvals are being changed to deposit accounts to provide for full cost recovery. This was necessary because the review services within these 14 approval types varied significantly due to project complexity, public involvement, environmental review, and the required public decision process.

Following is an overview of the base fee proposal, the fees for enhanced and optional services, and the prototypical project costs based on the revised fees.

Base Services:

The primary focus of the base proposal is to charge fees that will allow the Department to provide project review and inspection services that meet our established standards (Attachment No. 6) and reduce staff overtime. The proposed changes also include enhancements for information technology systems, the purchase of a new building to collocate building plan check and inspection staff, conversion of fire plan check and inspection from the general fund to the enterprise fund, future fee adjustments to match increased labor costs, and the addition of appropriate budgeted staff positions to meet service demands.

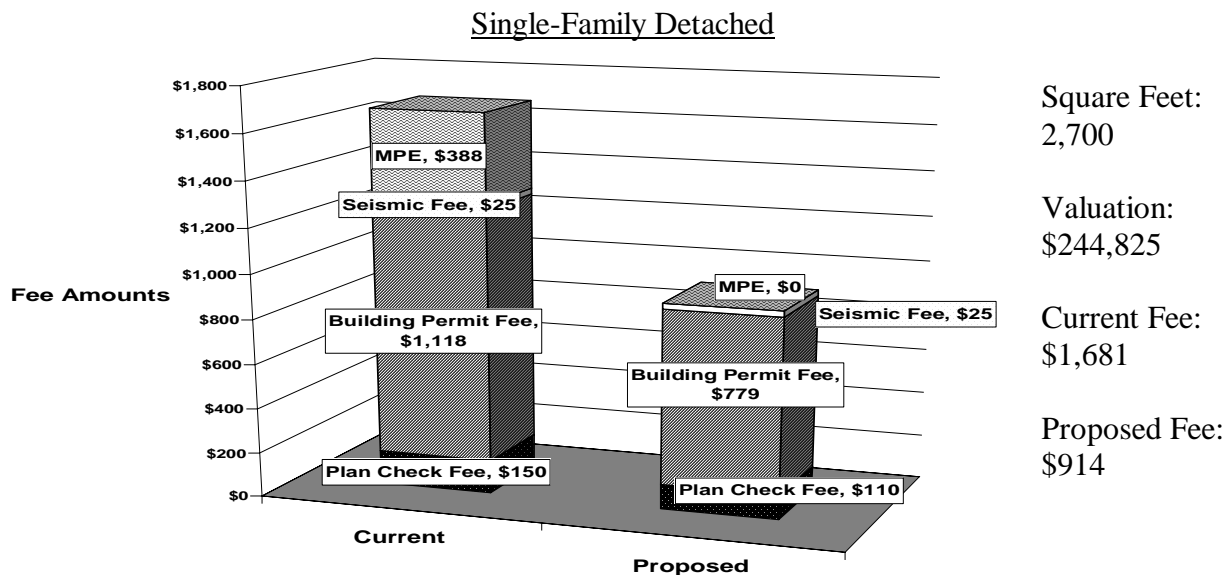
Enhanced and Optional Services:

The proposed enhanced and optional services that are included in the proposed fees are beyond what the Department currently offers. The enhanced service would be the addition of staff to perform long term permit monitoring. With this addition, monitoring of permit conditions, storm water best management practices, mitigation completion and maintenance and other ongoing conditions of a project after construction would be provided.

The optional services proposed with the revised fees provide additional tools that can be voluntarily chosen by a customer if they want faster processing, guaranteed next day inspection, or increased review schedule predictability for certain types of projects. One of the optional services would be an express plan check service. This service would consist of a managed program for reduced plan check times offered through staff overtime or outside contract. The program would be a limited service offered only until the review capacity has been reached. The Affordable/Infill Housing and Energy Efficiency Expedite Program is the other optional service included in the proposed fees. This service would offer a specialized staff team and a reduced review process timeline on a limited basis. Similar to the express service above, the capacity of the program would be closely monitored to insure the set timelines are being met. A priority list approved by Council would be used to decide the projects that would be offered this service if staff capacity is being challenged.

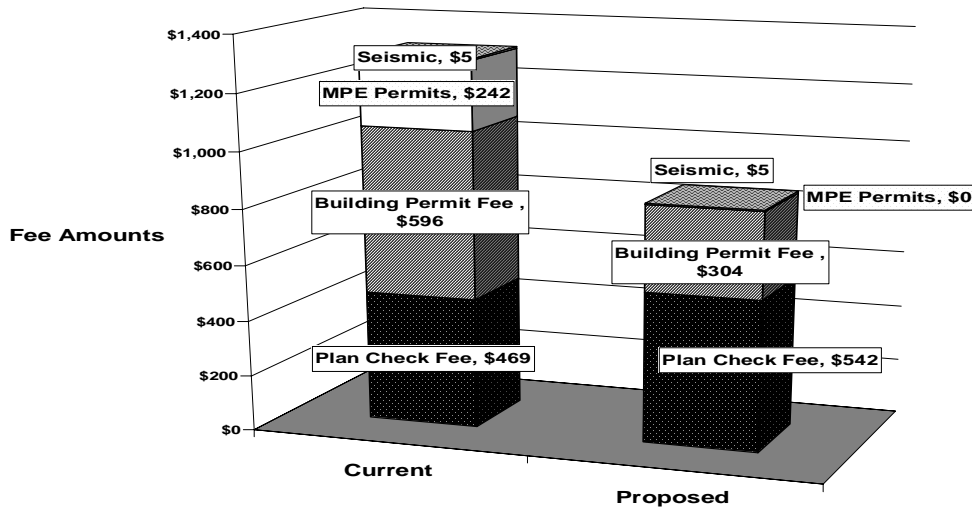
Prototype Project Costs:

The following are typical examples of projects that would be affected by the fee proposal.² Because the proposed fees are based on a square foot model and estimates of hourly review time, some overall fees have decreased while others have gone up. In addition, the proportion of fees attributed to plan check services versus inspection services have also changed to reflect the estimates for each service.



² The prototype projects utilized to illustrate costs in this report are based upon the models used in an industry survey of fees, reference the "San Diego County Building Industry Association (BIA) 2002-2003 Fee Survey."

Single-Family Room Addition



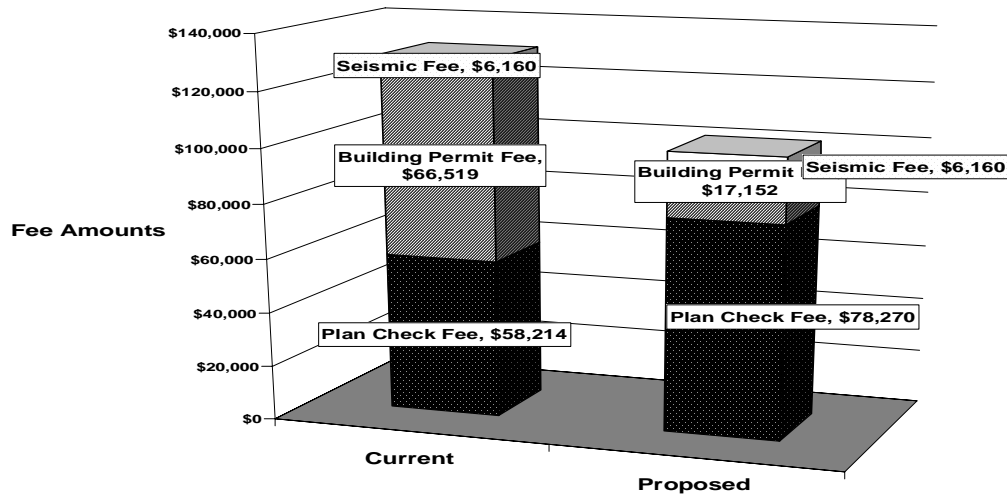
Square Feet:
500

Valuation:
\$51,000

Current Fee:
\$1,312

Proposed Fee:
\$851

Residential Multifamily Apartment



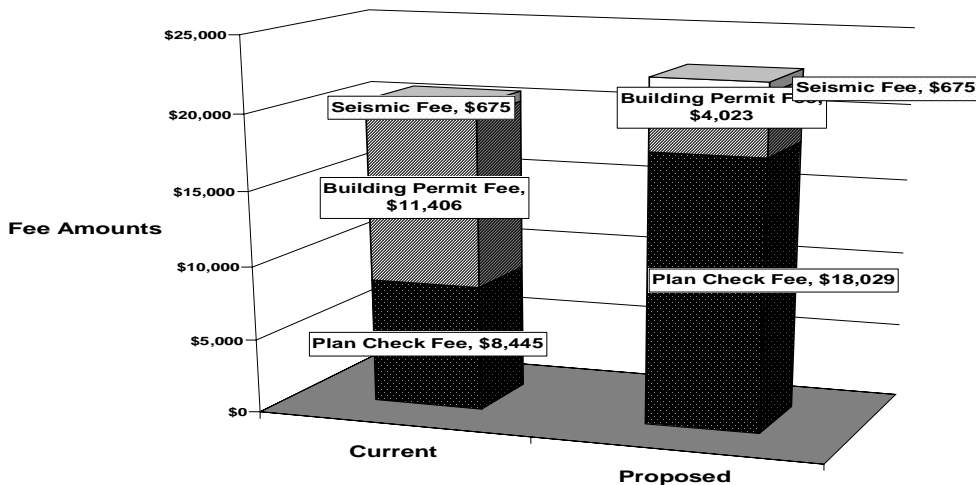
Square Feet:
366,626

Valuation:
\$29,331,000

Current Fee:
\$130,893

Proposed Fee:
\$101,582

Commercial Office Building



Square Feet:
50,000

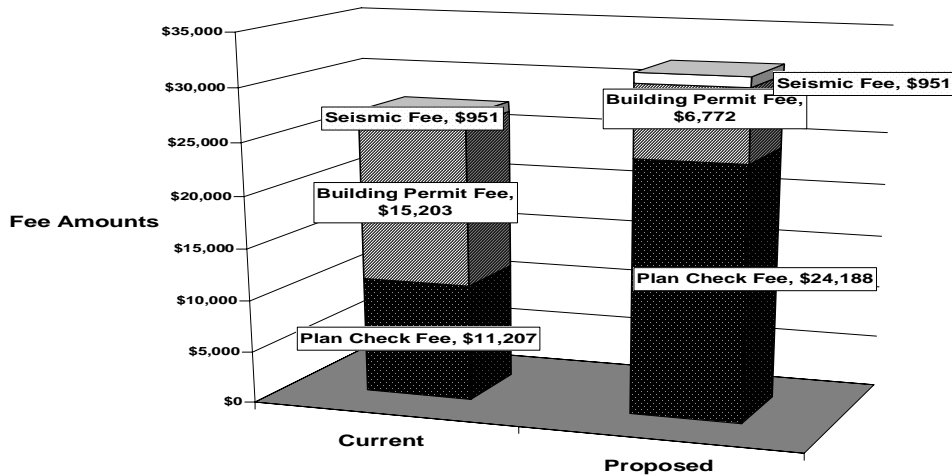
Valuation:
\$3,215,000

Current Fee:
\$20,526

Proposed Fee:

\$22,727

Retail Building



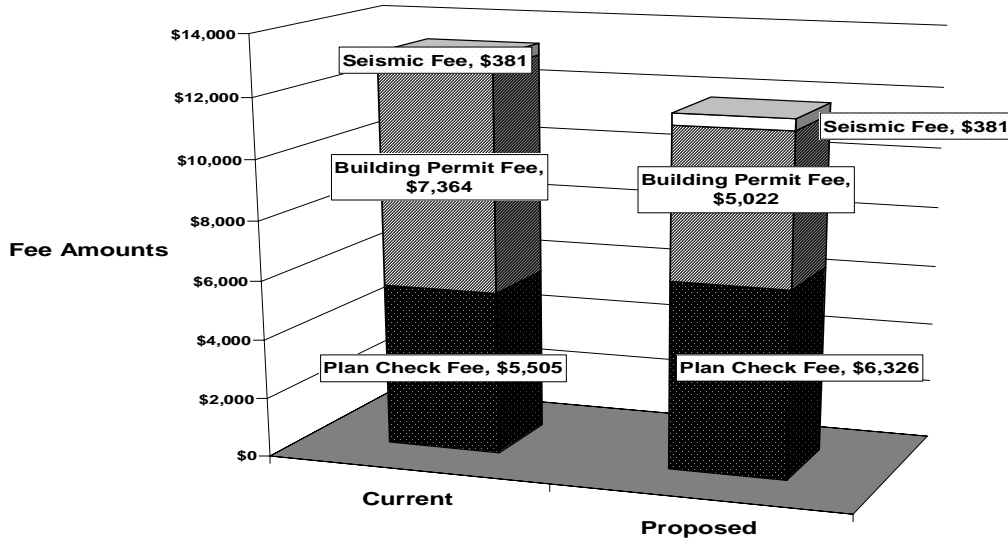
Square Feet:
100,000

Valuation:
\$4,530,000

Current Fee:
\$27,361

Proposed Fee:
\$31,911

Industrial Building



Square Feet:
50,000

Valuation:
\$1,815,000

Current Fee:
\$13,250

Proposed Fee:
\$11,729

CONCLUSION

In conclusion, the last fee study and approved increase for these fees was completed in fiscal year 2001. Since that time, the Department's labor costs have increased by 16.2% and workload has remained constant or increased for the various building and land development projects reviewed and inspected by the Department. The Department has, however, still been able to meet most of its performance measures during this time with a staff decrease of 6%, representing a substantial productivity improvement.

The fees proposed are necessary to maintain the quality of review, restore the Department's performance and service levels, and enhance the fiscal health of the enterprise fund.

Alternatively, the Council may choose not to adopt some or all of the proposed fees. If a no change alternative is adopted, the Department will need to cut its services, reduce its existing workforce, and control expenditures accordingly as a result. Attachment No.4 shows the reductions and impacts to customer services. This is not recommended because it would affect inspection and plan check review times to a level that many customers indicate is unacceptable to them. In developing this fee proposal, customers and contractors have indicated that time is of essence in the construction process. Based upon our discussions with the industry and the community, staff believes the recommended proposal will allow Development Services to meet customers' service level needs and expectations and to meet the community's quality review and project communication goals.

A copy of the notification list of interested organizations and individuals is attached (Attachment No. 3). The Department is providing presentations and further information to these organizations as needed. Comments received from listed, or unlisted, organizations will be forwarded to the committee.

ALTERNATIVES

1. Do not adopt the proposed fees. This is not recommended as reductions in budgeted positions, expenditures, and service levels would occur, causing delays in the plan review and construction process. Attachment 4 is a list of related service level reductions.
2. Modify the fees.

Respectfully submitted,

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Development Services Director

Approved: George I. Loveland
Senior Deputy City Manager

TPC/KGB

Attachments:

1. Proposed Fee Schedule
2. Fee Change Examples
3. Organizations Notified
4. Impacts of No Fee Change
5. Fund History
6. Project Review and Inspection Goals
7. Budget Adjustments
8. Cost Controls and Efficiency Measures